

RESOLUTION NO. 2023-06

**A RESOLUTION OF THE
BOARD OF TRUSTEES OF WESTERN WASHINGTON UNIVERSITY
BOARD POLICY ON OPERATING BUDGET RESERVE**

WHEREAS, the Western Washington University Board of Trustees is vested with full authority to manage the assets and affairs of the University.

WHEREAS, the Board's powers and duties are granted by Washington State law, in particular the Revised Code of Washington Chapter 28B.10 and 28B.35 (RCW 28B.10 and 28B.35) and other statutory provisions.

WHEREAS, the Board engages in responsible institutional governance by the proper exercise of its fiduciary duties to the institution.

NOW, THEREFORE BE IT RESOLVED by the Board of Trustees of Western Washington University that the attached Operating Budget Reserve Policy is formally adopted.

WESTERN WASHINGTON UNIVERSITY

BOARD OF TRUSTEES

RESOLUTION NO 2023-06 OPERATING BUDGET RESERVE

This policy establishes budget reserve and designated balances in the local tuition operating fee account, a funding source for the University's annual operating budget. It also establishes budget reserve requirements for certain self-support units.

Definitions:

Budget reserve – Funding held in reserve for future or contingent use (such as economic uncertainties, cash flow shortages, and unexpected expenses and losses) rather than for current on-going operating needs.

Designated balances – Fund balances earmarked for specified purposes. The term *designated balances* is used to differentiate between GASB-defined fund balance classifications and other funds that are set aside for more specific categories such as capital improvements, maintenance, and equipment purchases.

Policy Statement

It is the policy of Western Washington University to maintain an operating budget reserve of ten percent of its annual operating budget, and designated balances as an essential component of responsible fiscal management. The intent of this policy is to ensure that the university has sufficient levels of reserves to:

1. Build reserves to limit the negative impact of extraordinary events and to sustain continuity for university operations during periods of economic uncertainty, and
2. Develop capacity for longer-term strategic initiatives (earmarked as designated balances).

Background

Establishing reserves is common practice in the higher education sector and maintaining adequate reserves is key to maintaining stable fiscal operations and timely delivery of educational programs.

Setting resources aside can help reduce potential disruptions stemming from a prolonged economic downturn or catastrophic event such as a natural disaster. Without adequate reserves the university could experience periods of cash flow strain which impedes long-term planning and pursuit of strategic initiatives.

Reserves accumulate when tuition revenues exceed annual operating expenses over time or by deposits from other resources. Reserves are intended to pay for one-time investments or unanticipated short-term costs. Drawing on reserves for current on-going operating expenses is not a long-term solution. Additional state funding, and fee increases or other ongoing revenue sources, are necessary to sustain core educational activities. Use of reserves should be accompanied by a plan and timeframe for replenishment.

Reserves and Designated Balances

Budget reserves and designated balances are established as follows:

- Operating Budget Reserve
- Designated Balances
- Auxiliary Services and Self-Support Unit Reserves

Operating Budget Reserve. An accumulation of unused contingency budget (a portion of the unrestricted local tuition operating fee fund that is budgeted annually to cover unexpected costs or unrealized revenues within the fiscal year) plus any actual net operating revenue above the budgeted amount for the fiscal year set aside for economic uncertainties. This reserve provides limited bridge capacity to cover fiscal gaps due to unforeseen economic events such as temporary enrollment decline, statewide recessions, natural disasters, and major infrastructure failure.

At a minimum, reserves shall be sufficient to cover operating expenses equal to 10% of base budget. The maximum amount may change based on operating conditions or requirements. At times, reserves may be used to respond to emergencies or urgent needs. Use of reserves below the minimum threshold must be approved by the Board of Trustees and accompanied by a plan to replenish within a specified timeframe.

Designated Balances. Operating budget reserves that exceed the minimum required balance as outlined in Appendix A may be designated (earmarked) and used for specific purposes such as strategic initiatives.

Auxiliary Services and Self-Support Unit Reserves. University support services include auxiliary service funds which operate as enterprise funds. In addition, certain other budgetary units are expected to be self-supporting. Maintaining an adequate budget reserve within these units is an essential component for providing sustainable university services while covering operational expenses, debt service, and future replacement of facilities and equipment. Maintaining a budget reserve is favorable when bond rating agencies evaluate debt capacity since it lowers the debt-to-equity ratio (a measurement of financial viability), which may contribute to higher bond ratings and lower borrowing costs. Such policies should be supported by long-term strategic planning.

Auxiliary services and self-support units which are required to maintain budget reserves are specified in Appendix B.

Reserves in specified auxiliary and self-support units will be set at a minimum of 10% of recurring expenditures, with the maximum threshold adjusted for unique operating requirements such as debt service, bond covenants, and other considerations specific to those operations.

Accountability and Transparency

The Office of Strategy, Management and Budget (SMB) shall establish procedures for administering Budget Reserves and designated balances following the framework shown in Appendix A, which includes criteria for allowable use of reserves. Given the dynamic environment, funding level targets for reserves and designated balances should be recalculated at least annually.

SMB will report annually to the university President, the Finance, Audit and Risk Management (FARM) Committee of the Board of Trustees, the President's Cabinet (executive leadership team), and relevant budget committees regarding any uses of reserves and designated balances.

Appendix A: WWU Framework for Operating Budget Reserves - Types, Sources and Uses
Appendix B: Auxiliary Services and Self-Support Units (subject to this policy)

**WESTERN WASHINGTON UNIVERSITY
ITEM SUBMITTED TO THE BOARD OF TRUSTEES**

DATE: December 8, 2023

TO: Members of the Board of Trustees

FROM: President Sabah Randhawa by
Joyce Lopes, Vice President for Business and Financial Affairs

SUBJECT: BOARD POLICY ON OPERATING BUDGET RESERVE

PURPOSE: Action Item

Purpose of Submittal:

Formal adoption of a Board of Trustees level institutional Operating Budget Reserve Policy.

Proposed Motion:

MOVED, that the Board of Trustees of Western Washington University, upon the recommendation of the President, adopt Resolution No.2023-06 for approval of the Operating Budget Reserve Policy.

Supporting Information:

The Board of Trustees' Finance, Audit and Enterprise Risk Management (FARM) Committee was tasked with developing a Board-level institutional Operating Budget Reserve policy. The FARM Committee has provided guidance and input through multiple discussions dating back to 2019. The policy was developed by reviewing prior guidance and discussions with the Trustees, as well as examining similar policies at other institutions. At each stage of policy development, policy drafts were presented to the FARM Committee for feedback and direction.

The policy (Attachment A) directs the University to maintain adequate budget reserves and designated balances, an essential component of responsible fiscal management. The intent of this policy is to ensure that the university has sufficient levels of reserves to:

1. Build reserves to limit the negative impact of extraordinary events and to sustain continuity for university operations during periods of economic uncertainty, and
2. Develop capacity for longer-term strategic initiatives (earmarked as designated balances).

Brief History

Timeline

- In fall 2018, the University Budget Office (since renamed Office of Strategy, Management and Budget) researched reserve policies and best practices at peer institutions and other public universities in Washington state. The results were summarized and presented to the FARM Committee in December 2019.
- In spring 2019, former BFA Vice President Van Den Hul provided additional supporting information to the FARM Committee regarding establishing institutional reserve guidelines.

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- In June 2019, institutional reserve guidelines were presented to the Board of Trustees. Former budget director, Linda Teater, provided a historical review of the relationship between Western's institutional reserves and the contingency fund. Former Vice President Van Den Hul led a discussion on what is an appropriate reserve level. He suggested maintaining the nonexpendable (recurring) reserves between 10% and an amount equal to one quarter's worth of tuition revenue. He provided definitions and situations when the reserves could be used. It was determined that the university president will notify the Board of Trustees when planning to use reserves exceeding the amount designated as expendable. He further noted this information would be provided to the FARM Committee and will include an explanation of progress to restore the nonexpendable reserves to the target minimum amount, if required. No formal action was taken by the Board of Trustees to adopt a Board policy at that time.
- In early spring 2023, current chair of the FARM Committee, Sue Sharpe, asked that Business and Financial Affairs develop an institutional reserves policy for the Trustees to consider for adoption. Strategy, Management and Budget (SMB) staff reviewed their prior work and performed additional research, specifically looking for similar institutions where board level policy provides the overall framework and authority, which is then further defined by university procedures.

Process Used

How Do We Establish and Maintain an Operating Budget Reserve?

SMB will develop guidance for sources and uses of reserves with an annual review as part of the budgeting process. These procedures will be guided by university policy adopted by the Board of Trustees. The framework for funding mechanisms and spending authority (i.e., source and use) for the Operating Budget Reserve and designated balances are outlined in Appendix A of the Board Policy on Operating Budget Reserve, in Resolution No. 2023-06.

Other sources of funding shall be considered prior to use of the Operating Budget Reserve, such as departmental reserves (the portion of unused departmental operating budget authority that is retained and carried forward by the administering unit) or position vacancy savings (the portion of salary expense saved when positions are held vacant during the fiscal year).

Following adoption of the Operating Budget Reserve Policy, the university will implement the policy with the goal of full compliance with minimum reserve levels within three biennia.

How Do We Provide Accountability and Transparency for an Operating Budget Reserve?

The university president will approve all uses of the Operating Budget Reserve based on established guidelines yet may exercise full discretion considering the immediate issues while weighing the outlook for other unanticipated near-term needs which may arise. For transparency, SMB will prepare an annual report to the university president and the FARM Committee outlining the sources and uses of the Operating Budget Reserve and designated balances.

WWU Framework for Operating Budget Reserves -- Types, Sources and Uses

Type/ Designation	Policy and Definition	Funding Mechanism	Funding Level	Spending Authority	Allowable Uses	FY Target \$
Operating Budget Reserve	Set aside to sustain university operations during unanticipated fiscal impacts resulting from extraordinary events	Funded by the unused portion of the annual contingency budget plus annual net operating revenues above budgeted amounts; annual transfer to occur immediately following fiscal year end close	Hold one-time reserves sufficient to fully cover operating expenses equal to a minimum of 10% of base operating budget; balance is considered non-expendable (must be replenished) since one-time funding is not intended to cover recurring (on-going) expenses	Vetted by AVP SMB, shared with Cabinet by VP BFA, and approved by President with plan to replenish within specified timeframe (not intended to resolve long term structural issues)*	Recovery from natural disasters or major infrastructure failures, bridging temporary enrollment decline, filling funding gaps from statewide recession; spending triggered by threshold events such as % drop in enrollment or state funding.	\$XX million minimum (10% of current fiscal year base operating budget)
Auxiliary and Self-Support Reserves	Set aside to sustain operations for auxiliary services and self-supporting units during unanticipated fiscal impacts resulting from extraordinary events	Funded by net income generated by the respective auxiliary services and self-support unit. Reserves are in addition to amounts set aside for legal and other necessary obligations (e.g., bond covenants, repair and replacement, etc.)	Hold reserves sufficient to cover mission critical operations during unexpected interruptions of daily operations equal to a minimum of 10% of recurring expenses for the respective unit; maximum threshold adjusted for unique operating requirements	Vetted by VP BFA and approved by President with plan to replenish within specified timeframe; balance is considered non-expendable (must be replenished)	Extraordinary one-time (non-recurring) expenses of the respective auxiliary and self-support unit	Specific to the units shown in Appendix B

*President informs Board of Trustees as needed

Auxiliary Services and Self-Support Units

Auxiliary services and self-support units which are required to maintain budget reserves are specified below.

Auxiliary Services and Self-Support Units

- Athletics Department
- Associated Students Bookstore
- Housing and Dining System (University Residences, University Dining Services, and Viking Union/Student Activities)
- Outreach and Continuing Education
- Parking Services
- Student Health Services
- U.S. Post Office (Mail Services)
- Wade King Student Recreation Center